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WINGER

A close-up photograph of several stacks of US coins (pennies, nickels, and dimes) and US dollar bills (one-dollar and two-dollar bills) scattered on a surface. The coins are arranged in several tall stacks, with some individual coins lying flat around them. The dollar bills are partially visible, showing the 'ONE DOLLAR' and 'TWO DOLLARS' denominations. The image is a black and white photograph.[illegible]

INVESTMENTS

INTRODUCTION TO ANALYSIS AND PLANNING

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Bernard J. Winger
Ralph R. Frasca

University of Dayton

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PREFACE

Our purpose in writing this text is to help readers make intelligent and practical investment decisions—a task made more difficult by the stock market crash of October 19, 1987. The book achieves this goal by increasing readers' understanding of specific investment vehicles and the overall investment process, by focusing on a return-risk trade-off in selecting investments, and by emphasizing the importance of clearly defined investment goals and plans. To make the material interesting and lively, we feature a decision-making approach that involves the reader in analyzing and choosing investments. While stressing application, the text is well rooted in investment theory.

The text can be used effectively in the first investments course offered at four-year colleges or two-year institutions. It also will serve professional certification and continuing education programs focusing on investments. Topical coverage follows the format commonly used by instructors, so that the text can be easily implemented within existing teaching notes and outlines. It is designed to be the most teachable text available.

Distinguishing Features

The text distinguishes itself from others in its discipline in a number of critical areas. First, the capital asset pricing model (CAPM) is explained, discussed, and integrated throughout the text, rather than being featured in a separate chapter and then isolated from application. No doubt the CAPM will continue to be challenged, just as other economic theories have been tested, but its general approach to portfolio design seems durable enough to become a permanent part of our instructional pedagogy.

Return and risk concepts are developed in two separate chapters early in the text and are used in the remaining chapters when they are appropriate. This format gives students a frame of reference for evaluating specific investments and investment approaches.

The text stresses the necessity of considering correlations among broad asset groups in developing the personal portfolio. This consideration is emphasized with international and tangible investments.

The 1986 Tax Reform Act is integrated throughout the text. The topics of tax rates and tax

strategy are introduced in Chapter 1, and new opportunities created by the Act are indicated in remaining chapters, where appropriate.

Personal financial planning tasks related to investing are integrated throughout the text, and are highlighted in Chapter 20, which treats life insurance and retirement planning within an investment framework.

Investing to meet liquidity needs is treated in a complete chapter. Moreover, borrowing on a margin account or in other forms is considered as part of liquidity planning.

Strategies employing option-type securities are treated in depth and from a user's perspective. These strategies cover warrants and convertibles, as well as put and call options. Moreover, covered option writing is explained and evaluated.

Pooling arrangements receive extended treatment, spanning two chapters. The proliferation of funds in the past five years makes this topic particularly important. Moreover, the text emphasizes evaluation of fund performance.

Investing in real estate, including the personal residence, has a strong analytical perspective that stresses rate of return,

rather than general or subjective factors.

Pedagogical Aids

The text offers instructors a variety of pedagogical aids. One of the most important is the easy and informal writing style. Sections have been pretested for student attentiveness and comprehension. We and the editors at Merrill have tried to make this book the most readable one in its field.

Chapter-end items include a summary, review questions and problems, helpful outside readings, and key terms. Each key term includes a matching item to test student comprehension of topical coverage. This feature has been well received in pre-test trials.

Boxed feature items are included in each chapter to enliven material or to present conflicting points of view. We have written most of the boxes in order to make them appropriate for the audience or the topic under discussion.

Ample use of graphic and other visual material stimulates and retains student interest. Many of the exhibits are available on transparencies.

A series of computer templates has been developed to integrate with the text, using Lotus 1-2-3. These templates include routines to do most return and risk calculations, including Macaulay's duration coefficient. Of particular interest are routines for developing and evaluating a portfolio and for analyzing real estate investment.

Each of these can be used effectively with student projects.

An accompanying test bank provides over 1,000 multiple-choice and true-false questions. Questions test students' analytical and integrative skills, along with their comprehension of the material. Many questions are decision-oriented, and all questions are available on floppy disks.

A thorough instructor's manual also accompanies the text. It includes a detailed outline of each chapter, with exhibits keyed to appropriate sections. This outline enables instructors who use exhibit transparencies to easily integrate them into their presentations. Text chapter-end problems and questions are also covered in the manual.



ACKNOWLEDGEMENTS

A work of this magnitude requires the assistance and dedication of many people. Our first thanks must go to our colleagues who have provided helpful insights and suggestions. We are particularly grateful to Larry Hadley, chair of the Department of Economics and Finance at the University of Dayton, who provided the creative work environment that makes textbook writing both possible and enjoyable.

In addition, the text benefited measurably from the contri-

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maining flaws are strictly the responsibility of the authors.

Finally, the editorial and production staff at Merrill Publishing deserve our deepest gratitude for their efforts. Special thanks are due Tim McEwen (editor-in-chief), Pam Kusma (developmental editor), Jeff Putnam (production coordinator), and Rebecca Money Bobb (copy editor). They are truly professionals who have a remarkable ability to develop a manuscript into an important text.

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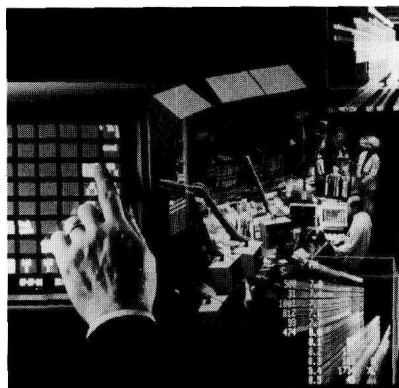
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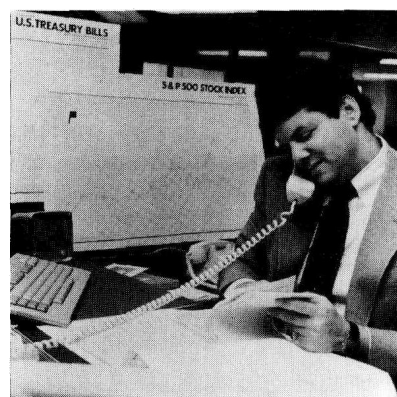
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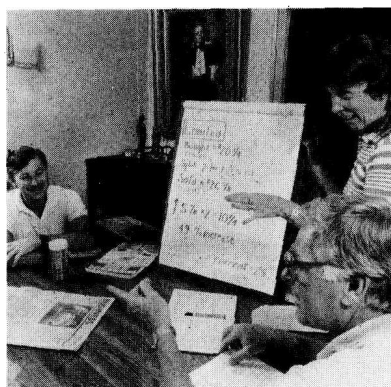
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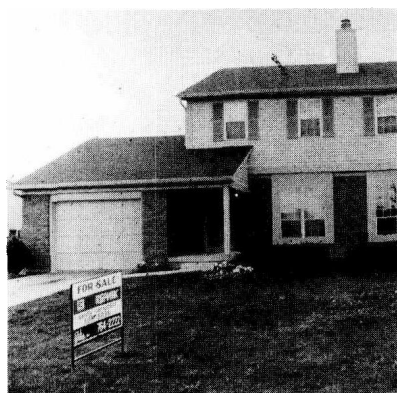
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INVESTMENTS

INTRODUCTION TO
ANALYSIS AND PLANNING



PART ONE



Success in investing usually does not happen by chance, nor does it come quickly. All too often, beginners rush into an investment program without considering its risks in relation to its potential returns and without an understanding of the overall investment environment. The disappointments that often result can be avoided by taking the preliminary steps discussed in Part One.

Chapter 1 highlights the importance of having concrete investment goals and of trading off return and risk in selecting specific investments. It discusses investment planning, introduces specific investment vehicles, and indicates how investments are created. Finally, it explains basic income tax considerations that investors should know.

Chapter 2 highlights the functions of securities markets, explaining organized exchanges